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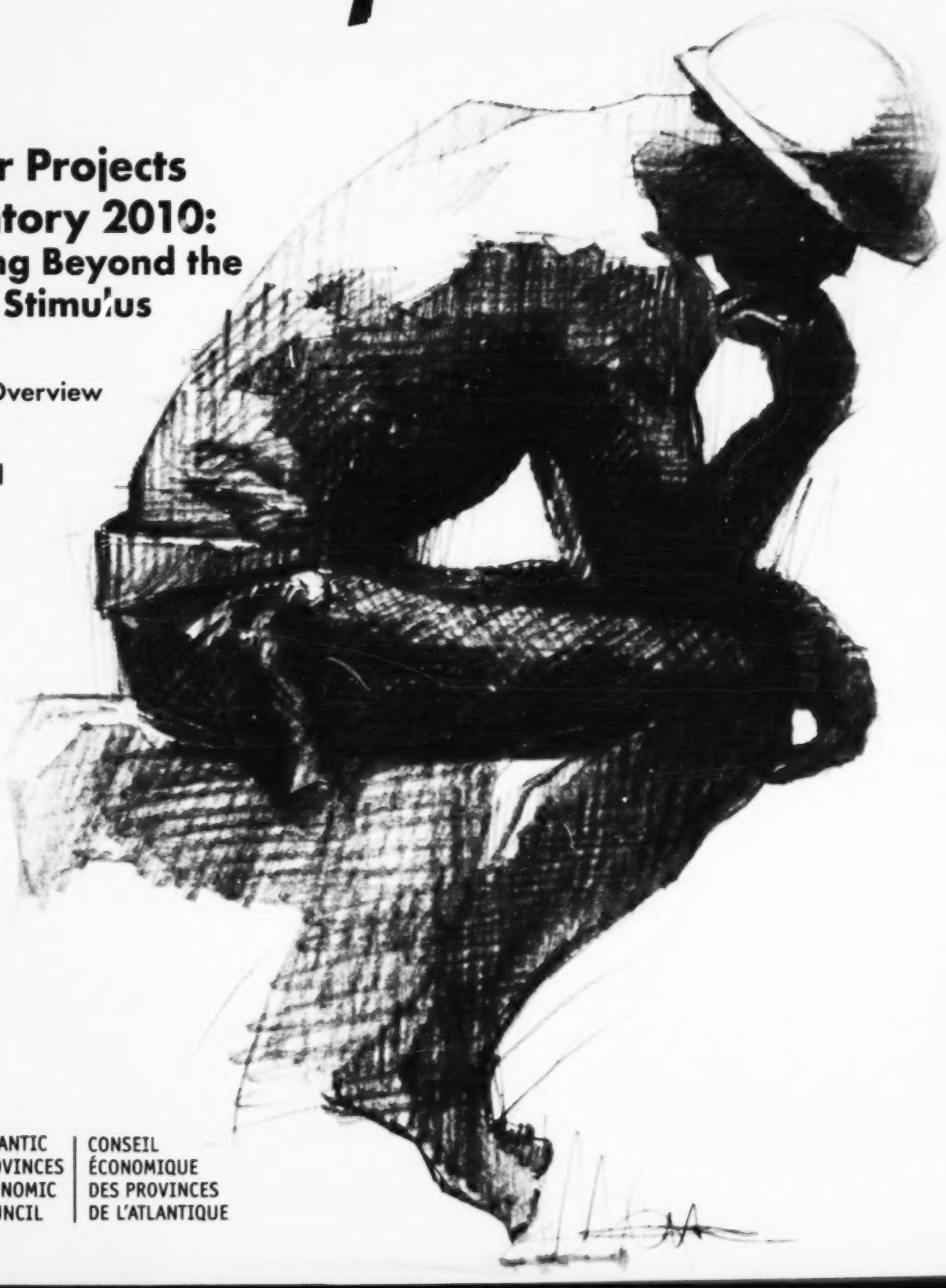

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About APEC

The Atlantic Provinces Economic Council (APEC) is an independent, not-for-profit, research and public policy organization that seeks to advance the economic development of the Atlantic Region. APEC's revenue is derived primarily from membership, funded research and sponsorships. Our membership includes individuals, small and large companies, labour groups, academic institutions, municipalities and government agencies.

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About this Report

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Atlantic Report
Highlights

Major Projects Inventory 2010: Looking Beyond the Public Stimulus

- The 27th edition of APEC's Major Projects Inventory identifies 343 major investment projects in various stages of development across Atlantic Canada.
- The total value of these projects is $72 billion, down 18% over last year's Inventory largely due to the cancellation of two large projects.
- The outlook for investment spending in 2010 is more positive. Current-year spending on major projects in Atlantic Canada is up about 13%. In large part this is due a 20% increase in government stimulus-related infrastructure spending, following on from last year's 32% jump.
- Private sector investment is higher in 2010 in both Newfoundland and Labrador (due to higher offshore spending and the Vale Inco processing facility) and Nova Scotia (boosted by renewable energy projects). However, private sector investment has fallen for the second consecutive year in Prince Edward Island and New Brunswick due to the completion of recent projects.
- With a revival in commodity prices and the restarting of some projects in western Canada, material and labour cost pressures are resurfacing.
- In 2011 the critical issue is whether the private sector will pick up the slack as stimulus spending starts to wind down. Private investment spending is expected to boost total major project investment in Newfoundland and Labrador next year. But overall spending is currently expected to be weaker in the three Maritime provinces. This regional divergence in investment spending could be a pattern that continues for years to come.

Atlantic Canada Overview

- The uneven nature of the economic recovery in Atlantic Canada is becoming more apparent as provincial labour markets diverge and consumers spend more than ever while international exports remain depressed. Retail sales in the Atlantic region are now almost 4% above pre-recession levels but Atlantic Canada's non-energy exports are currently 39% below their pre-recession peak.
- The Bank of Canada is poised to begin raising interest rates with economic activity and inflation in Canada stronger than previously anticipated. However, there have been renewed concerns about the strength of the global recovery. Financial market concerns over the fiscal crisis in Europe have triggered a renewed flight to the perceived safety of the U.S. dollar.
- So far, the Atlantic provinces seem to be avoiding any tough action to get back to fiscal balance. The provinces forecast little change in their deficits over the next three years. Nova Scotia and Prince Edward Island are projecting a return to balance by 2013/2014 and New Brunswick by 2014/2015.

Major Projects Inventory 2010: Looking Beyond the Public Stimulus

Note: A detailed list of the Major Projects Inventory 2010, along with a searchable version of the Inventory, is available for APEC members on the APEC member website at www.apec-econ.ca.

The 27th edition of APEC's Major Projects Inventory identifies 343 major investment projects in various stages of development across Atlantic Canada. The total value of these projects is $72 billion, down 18% over last year's Inventory. The main reason for the decline is the decision to shelve an $8-billion refinery project in Saint John and a $5-billion petrochemical plant in Nova Scotia.

The outlook for investment spending in 2010 is more positive. Current-year spending on major projects in Atlantic Canada is up about 13%. This is due to higher public sector investment across the region and stronger private investment in Newfoundland and Labrador and Nova Scotia. Newfoundland and Labrador is benefiting from increased offshore project activity and higher spending on the Vale Inco nickel processing facility. Private investment in Nova Scotia is boosted by spending on projects to meet government renewable energy targets.

Public Stimulus

Government spending (federal, provincial and municipal) increased 32% in calendar year 2009 and a further 20% in 2010. The large rise this year partly reflects the difficulty governments experienced in quickly ramping up spending in 2009. The timing is important as the Canadian economy started growing again in the third quarter of 2009 and grew by 5% in the fourth quarter of last year. While infrastructure stimulus is providing significant support to the recovery, the Bank of Canada is now starting to withdraw its substantial monetary stimulus to ensure the economy does not grow too rapidly.

Identifying 'stimulus' funding is complicated because of the large number of federal funding programs that are being used (see box on next page). However, comparing 2010 to 2008 shows that total annual government capital spending (excluding the Point Lepreau refurbishment) has increased by $2.2 billion over that period. The largest share of this increase in spending has gone to transportation which is up $750 million. Broad infrastructure programs (+$624 million) and spending on education (+$504 million) have also substantially benefited from stimulus funding.

Atlantic Canada Major Projects Inventory

Total Inventory Value

- APEC has identified 343 major projects in various stages of development across Atlantic Canada. The total value of these projects is $72 billion, down 18% over last year's Inventory.
- Newfoundland and Labrador accounts for the largest share of the Inventory (52%), followed by New Brunswick (25%), Nova Scotia (20%) and Prince Edward Island (3%).
- Several large projects were removed from the list this year including the proposed $8-billion Irving refinery and $5-billion Keltic petrochemical projects which were both cancelled.

Investment by Sector

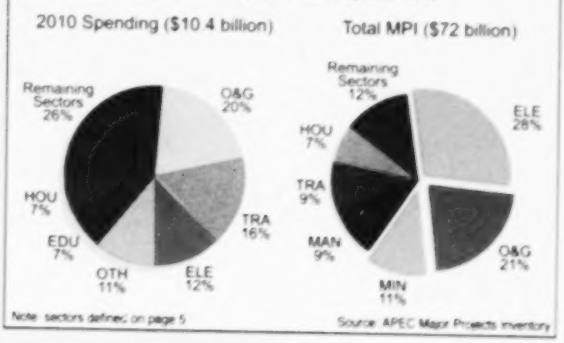
- Energy-related projects continue to be an important part of potential investment in Atlantic Canada accounting for nearly $36 billion or 50% of the total Inventory value. However this is down from a share of 61% last year due to the cancellation of several large energy-related projects.
- Energy-related projects account for the largest share of current-year spending at 34%.

Current-Year Spending

- The total value of current-year spending on major projects in Atlantic Canada is up about 13% in 2010. Public stimulus spending is providing a significant boost to spending in all four provinces, with total public sector capital spending in Atlantic Canada up 20% in 2010.
- Private sector investment is higher in 2010 in both Newfoundland and Labrador (due to higher offshore spending and the Vale Inco processing facility) and Nova Scotia (boosted by renewable energy projects). However, private sector investment has fallen for the second consecutive year in Prince Edward Island and New Brunswick due to the completion of various projects.
- Current-year spending in Atlantic Canada is forecast to fall by 3% in 2011. Public investment will fall 15% next year as stimulus spending starts to wind down in all four provinces. However, stronger private spending will lead to an increase in total major project investment in Newfoundland and Labrador.

Energy-Related Projects Dominate the Total Value of Major Projects Inventory

Share of Major Projects Inventory (MPI) value by sector (%)

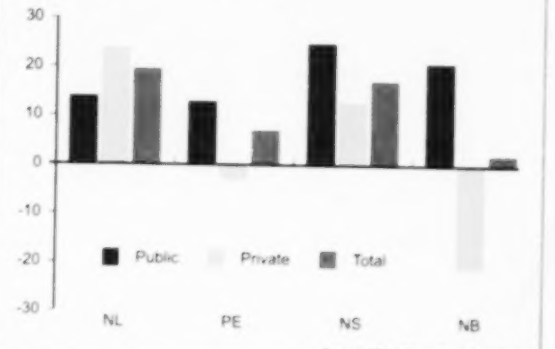


Note: sectors defined on page 5

Source: APEC Major Projects Inventory

Public Stimulus Boosts Investment in 2010

Change in the value of current-year major projects investment, 2009 to 2010 (%)



Source: APEC Major Projects Inventory

Federal Infrastructure Stimulus Programs

Infrastructure Stimulus Fund - $4 billion program with $274 million committed to Atlantic Canada. Funding was matched by provinces, municipalities and communities.

Building Canada: Base Funding – an acceleration of a program targeted at core infrastructure. Up to $175 million in federal money is available per province which is matched by the provincial government.

Building Canada: Communities Top-up – an additional $500 million was added to this program targeted at communities with less than 100,000. $34 million was committed to Atlantic Canada and matched by provinces and municipalities.

Knowledge Infrastructure Program – a $2-billion program to support infrastructure enhancement at universities and colleges. About $140 million has been committed to Atlantic Canada which has been more than matched by the provinces.

Recreation Infrastructure Canada Program - a $500-million program to support recreation facilities. About $35 million in federal funding will be matched by provinces and municipalities.

Small Craft Harbours Accelerated Infrastructure Program - a $200-million program that will see $140 million invested in wharves, dredging and other infrastructure in small harbours throughout Atlantic Canada.

Green Infrastructure Fund – A $1-billion program that runs over five years but has only funded one project in the region ($10 million for the city of Saint John).

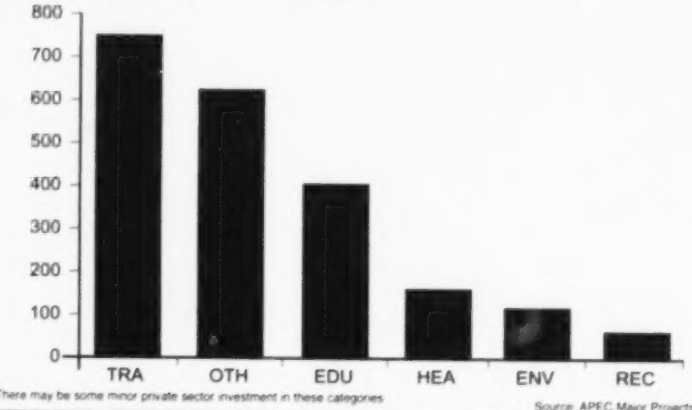
Other programs like the Gateways and Border Crossings Fund, Gas Tax for Municipalities and additional components of the Building Canada program are also used by the federal government to support investment in the region during the 2009-2011 period but are not stimulus programs.

Private Sector Caution

In the private sector, commodity driven projects are showing some recovery helped by rising prices. Stronger global demand and prices are starting to improve the viability of several mining projects in Atlantic Canada. The Iron Ore Company of Canada announced in May that it would be restarting a $539- million expansion at its mine in Labrador that it had postponed in 2008 due to the recession. Several gold, iron ore and uranium projects in Newfoundland are moving forward and closed mines in New Brunswick and Nova Scotia are being reevaluated.

Transportation Infrastructure is the Biggest Beneficiary of Public Stimulus Funding

Change in the value of current-year major project investment spending by public sector* category, 2008-2010 ($millions)



* There may be some minor private sector investment in these categories

Source: APEC Major Projects Inventory

Other large energy and industrial projects continue to progress (such as Deep Panuke in Nova Scotia and the White Rose expansion in Newfoundland and Labrador) while the Hibernia Southern Extension also moved ahead. However in several industries there is still considerable caution. Major projects spending in service industries (such as telecom, retail and commercial) is especially weak with annual spending down about $127 million between 2008 and 2010. Financing remains a challenge for retail and especially hotel investments which has been held back those sectors. Several commercial developments are planned in downtown Halifax and project proponents are busy trying to pre-lease clients but these developments were slowed considerably by the recession.

Financing for residential development is starting to improve, although it is still more stringent than a few years ago. New residential development in Saint John will be limited in part because of the cancellation of the Irving Refinery project and the end of activity on the Canaport LNG terminal. Meanwhile, the St. John's housing market has continued to grow at a high level throughout the recession with current and expected industrial projects supporting population growth in the city.

Cost Concerns Return

During the recession, commodity prices plummeted which helped ease some of the large cost increases that builders were facing for construction materials. As well, labour cost pressures eased as construction workers were laid off in Alberta and manufacturers shed jobs across the country resulting in many native East Coast workers returning to their home towns. With the revival in commodity prices over the last few months and the restarting of some projects in western Canada, these cost pressures are resurfacing. Many projects have one or two trades that are difficult to find most commonly in the mechanical and electrical fields. Other shortages are likely to surface as activity picks up in Alberta and British Columbia. In Alberta an estimated $66 billion of oil sands projects were put on hold during the recession and some of those are starting to advance again. For example, Imperial Oil announced that it would move forward with the $8-billion Phase I of the Kearl oil sands project and Suncor Energy announced that it would spend $2.9 billion on the next phases of its Firebag project. British Columbia also has several mega projects that are picking up steam and over $190 billion in planned projects.

Commodity prices are also on the rise which may start to have an impact on steel, copper and other metals as well as liquid asphalt which is used in road construction. Local lumber costs have increased this year as market demand increased while many sawmills were idled. In Nova Scotia, new energy efficiency rules that require thicker insulation are pushing up the average cost of a home by 1-2% and the HST will further increase prices in NS in July; An HST rebate on new housing in the province also ended in March.

Looking Ahead

In 2011 the critical issue is whether the private sector will pick up the slack as stimulus spending starts to wind down. Provincial and municipal governments are trying hard to ensure their cost-shared projects are completed

before the March 2011 deadline for federal funding. With provincial debt levels swollen and provinces looking to erase their deficits, provincial capital spending in Atlantic Canada is likely to fall over the next few years. For example, provincial capital spending in Prince Edward Island is forecast to fall from $155 million in 2010/2011 to $79 million in 2012/2013.

Newfoundland and Labrador will see further advances in total current-year Major Project investment in 2011 due to higher spending on the $3-billion Vale Inco nickel processing facility, the Hibernia Southern Extension and an increase in mining investment. This will push annual major project investment to over $4 billion in 2011. Spending is currently expected to decline by about 3% in New Brunswick and Prince Edward Island next year, but Nova Scotia (-27%) will experience a steeper drop as a decline in renewable electricity spending compounds a reduction in public spending.

The divergence in spending in 2011 between Newfoundland and Labrador and the Maritime provinces could be a pattern that continues for years to come. Though largely due to offshore oil and mining (as well as the potential Lower Churchill hydro project), Newfoundland and Labrador has a large number of projects on the horizon to help sustain investment and future output growth. Investment in related sectors along with housing to support population growth in St. John's will also provide a boost. The province accounts for 52% of the total Major Projects Inventory and is expected to account for 47% of major project capital spending in 2011.

In the Maritime provinces, the completion of recent large projects and the cancellation of others have led to a drop in the value of future potential projects. In Nova Scotia (and the other provinces) continued urbanization will support retail and residential housing developments, while the aging population will underpin investments in homes for seniors. In Prince Edward Island wind power is expected to continue to support investment while in New Brunswick potential developments of shale gas could help offset some of the slowdown in stimulus spending. ■

About the Major Projects Inventory

APEC produces an annual project-by-project inventory of the major investment activity proposed for Atlantic Canada. A "major project" is defined as any capital project valued at $25 million or more ($10 million or more in Prince Edward Island). Most are projects designated to begin construction in 2010 or beyond, although some projects have already started. Larger projects without a currently identified value are listed for reference. APEC has made every effort to ensure the accuracy of the information presented. Readers requiring information or wishing to comment on the Inventory should contact the APEC research staff (see inside cover).

Projects are categorized into 12 major sectors:

EDU - **education and research** capital spending including schools, universities, colleges and research institutes

ELE - **electricity** generation, distribution and electric utility capital spending

ENV - **environmental** infrastructure spending including water and wastewater investment, site cleanups and programs supporting environmental infrastructure initiatives

HEA - **health care** infrastructure including hospitals and long-term care facilities

HOU - **housing**, including large scale developments of apartments, condos, townhouses, single family dwellings, social housing, or a combination of these types of housing

MAN - **manufacturing and other primary** capital spending which includes industrial construction by manufacturing and primary industries (other than oil and gas and mining)

MIN - **mining** industry capital spending including new mine development, expansions to existing mines and mineral exploration

O&G - **oil and gas** capital spending including offshore and onshore oil and gas exploration, extraction and distribution

OTH - **other public infrastructure** projects including broad federal infrastructure programs, defense infrastructure, justice facilities and government office buildings

REC - **recreation and tourism** infrastructure including recreation facilities (rinks, pools, multipurpose facilities) and tourism developments (hotels, resorts, golf courses, arts and entertainment)

SER - **other services** including capital investment in telecommunications, retail and commercial construction

TRA - **transportation** infrastructure spending including highways, bridges, airports, ports, rail and public transit

APEC also categorizes projects based upon their stage of development:

Underway or approved – These projects are already underway or have been approved to begin soon.

Near approval – These are projects nearing approval but require some final component (such as financing or regulatory approval) to be resolved.

Under development or review – These projects have passed the proposal stage and are under review. Feasibility studies, drilling tests, engineering studies and other technical analysis are being conducted to finalize the details and viability of the project.

Proposal stage – These projects are in the proposal stage or are projects for which there is some economic rationale but no detailed proposal.

Newfoundland and Labrador Major Projects Inventory

Summary – All Projects

- APEC has identified 90 projects totaling $37.6 billion. This value is down 5% over last year's Inventory. The main reason for the decline is the removal of two large projects that were at the proposal stage (a $2.5-billion Labrador Wind Farm and the $1.7 billion fixed link); this was partially offset by an announced value for the Hibernia Southern Extension ($1.74 billion).
- The largest projects in the Inventory are the Lower Churchill Hydro development ($10 billion), the Hebron oil field ($5 billion) and the White Rose oil field expansion ($3.5 billion).
- Energy-related projects (oil and gas, electricity and other related projects) account for 58% of total potential major project investment.

Current-Year Spending

- The value of current-year spending in 2010 is up 20% to $4 billion. The increase is largely due to higher spending in the offshore sector and at the Vale Inco processing facility, along with rising transportation spending.
- The oil and gas sector dominates current-year spending, accounting for 42% of the total.
- The projects with the greatest expenditures in 2010 are the White Rose expansion, the Vale Inco project, capital expenditures for existing offshore projects and offshore exploration.
- Current-year spending will increase further in 2011 as investments at the Vale Inco processing facility and the Hibernia Southern Extension ramp up.

Projects to Watch

- The development plan for the Hebron oil project is expected to be submitted this year and the contract to build the topsides modules may also be awarded in 2010.
- Drilling could get underway later this year on the next phase of the White Rose expansion project at West White Rose.

Projects by Industry *$ millions*

	2010	2011+
Oil and Gas	1,683	9,640
Manufacturing/other primary	555	4,476
Transportation	417	243
Other public infrastructure	313	443
Mining	217	5,664
Education and research	208	122
Health	160	1,535
Housing	155	824
Electricity	137	10,265
Other services	87	196
Environmental infrastructure	60	161
Recreation/tourism	23	60
Total	**4,015**	**33,629**

Projects by Stage of Development *$ millions*

	2010	2011+
Underway/Approved	3,816	8,684
Near Approval	168	5,571
Under Development/Review	31	16,109
Proposal stage	0	3,265
Total	**4,015**	**33,629**

Prince Edward Island Major Projects Inventory

Summary – All Projects

- APEC has identified 37 projects totaling $1.9 billion. The value of the Inventory is down 16% over last year due to the completion of the West Cape Wind Farm ($220 million) and the removal of a proposed resort development.
- The largest projects in the Inventory are the current and future phases of the province's wind energy plan (an estimated $786 million) and the five-year transportation capital plan ($245 million).
- The electricity sector accounts for 47% of all identified investment in the province.

Current-Year Spending

- The value of current-year spending in 2010 is up 7% to about $374 million due to higher spending on public infrastructure.
- The public sector accounts for 72% of spending in 2010, the highest share in the region.
- The largest expenditures in 2010 will come from the federal government's Building Canada Fund and provincial capital spending on transportation and health care including work on the Charlottetown hospital.
- Current-year investment in 2011 will be down slightly due to declining public spending.

Projects to Watch

- A decision on a request-for-proposals is expected soon for the next phase of wind development in the province.
- A decision to start construction on a convention centre in Charlottetown could also lead to the development of a new hotel and other projects.

Projects by Industry *$ millions*

	2010	2011+
Other public infrastructure	83	54
Transportation	80	287
Electricity	62	836
Education and research	49	120
Health	36	84
Recreation/tourism	24	61
Other services	15	0
Environmental infrastructure	15	75
Housing	14	15
Manufacturing/other primary	0	0
Mining	0	0
Oil and Gas	0	0
Total	**378**	**1,532**

Projects by Stage of Development *$ millions*

	2010	2011+
Underway/Approved	334	479
Near Approval	40	371
Under Development/Review	4	672
Proposal stage	0	10
Total	**378**	**1,532**

Nova Scotia Major Projects Inventory

Summary – All Projects

- APEC has identified 119 projects totaling $14.5 billion. This is down 32% largely due to the cancellation of a proposed petrochemical plant ($5 billion).
- The largest projects underway are the Bedford West housing development ($1 billion) and the Deep Panuke natural gas project ($800 million).
- The housing sector (26%) accounts for the largest share of the Inventory value due several long-term housing developments mainly in the Halifax area.

Current-Year Spending

- The value of current-year spending on projects is up 17% in 2010 to $3.2 billion due to increased investment on renewable energy projects and further growth in public infrastructure spending.
- Public sector investment accounts for 43% of current-year spending in 2010 up from 31% in 2008.
- The largest expenditures in 2010 will go toward Nova Scotia Power's capital spending to build out renewable energy projects, provincial transportation capital spending and the Deep Panuke project.
- Current-year spending is expected to decline rapidly in 2011 as public infrastructure spending falls sharply and several renewable energy projects will finish in 2010.

Projects to Watch

- A final development plan for a proposed convention centre in Halifax is expected in July at which point a decision is expected.
- ExxonMobil hopes to begin a seabed survey later this year that could lead to the addition of new fields at the Sable project.

Projects by Industry *$ millions*

	2010	2011+
Electricity	748	605
Transportation	605	2,372
Housing	436	3,279
Oil and Gas	338	1,139
Other public infrastructure	314	733
Education and research	244	314
Other services	175	825
Health	163	94
Recreation/tourism	99	700
Environmental infrastructure	78	195
Manufacturing/other primary	20	700
Mining	10	350
Total	**3,230**	**11,306**

Projects by Stage of Development *$ millions*

	2010	2011+
Underway/Approved	2,931	4,912
Near Approval	299	1,801
Under Development/Review	0	1,541
Proposal stage	0	1,788
Total	**3,230**	**11,306**

New Brunswick Major Projects Inventory

Summary – All Projects

- APEC has identified 97 projects totaling $17.7 billion. The Inventory value is 27% lower than last year, mainly due to the decision to cancel an $8-billion oil refinery project in Saint John.
- The largest projects are a proposed second nuclear power plant ($4 billion) and energy corridor ($2 billion) and the potash mine expansion ($1.7 billion) currently underway.
- Energy-related projects account for 53% of all potential investment.

Current-Year Spending

- The value of current-year spending in 2010 is up 2% to $2.75 billion as strong growth in public investment and spending at the potash mine in Sussex offsets lower spending in manufacturing and electricity industries.
- Public sector capital spending (excluding Point Lepreau) accounts for 61% of current-year spending in 2010 up from 30% in 2008.
- The projects with the greatest expenditures in 2010 are the potash mine expansion and highway infrastructure spending.
- Current-year spending in 2011 is likely to be slightly lower as declines in public infrastructure spending are partially offset by stronger anticipated spending on mining and gas developments.

Projects to Watch

- If Phase 1 of Apache Canada's oil and gas drilling program near Elgin is successful it could lead to more drilling and potentially production over the next few years.
- Irving Oil may decide whether to build a $162-million biodiesel refinery in Saint John later this year.

Projects by Industry *$ millions*

	2010	2011+
Transportation	609	1,990
Other public infrastructure	467	808
Mining	450	1,355
Electricity	328	6,432
Health	205	219
Other services	170	483
Manufacturing/other primary	113	162
Education and research	102	875
Recreation/tourism	97	191
Housing	84	534
Environmental infrastructure	73	219
Oil and Gas	52	1,689
Total	**2,750**	**14,957**

Projects by Stage of Development *$ millions*

	2010	2011+
Underway/Approved	2,703	3,855
Near Approval	47	482
Under Development/Review	0	9,269
Proposal stage	0	1,351
Total	**2,750**	**14,957**

Atlantic Overview

An Uneven Recovery

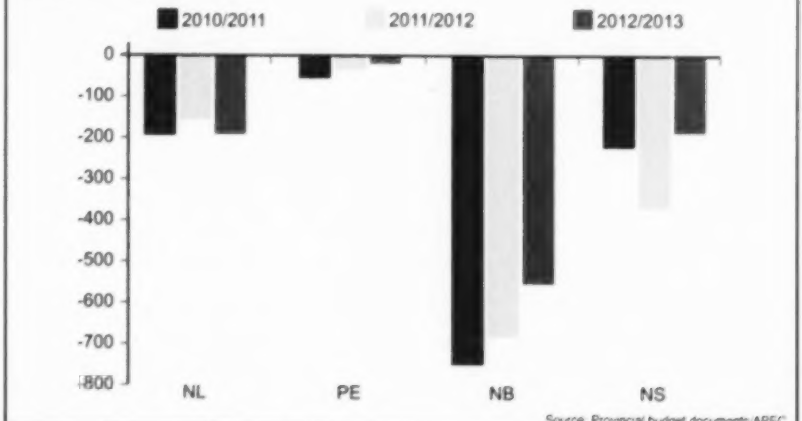
The uneven nature of the economic recovery in Atlantic Canada is becoming more apparent as provincial labour markets diverge and consumers spend more than ever while international exports remain depressed.

Labour markets across the region are diverging with employment levels essentially flat in Nova Scotia and New Brunswick and still marginally below pre-recession levels. Employment has picked up in Newfoundland and Labrador during the last four months but employment in Prince Edward Island has been advancing at a rapid pace over the last eight months and is now almost 3% above pre-recession levels.

Retail spending in Atlantic Canada was up 9.1% in the first quarter of 2010 – noticeably higher than the Canadian pace of 7.5%. Retail sales in the Atlantic region are now almost 4% above pre-recession levels. Atlantic consumers have been splurging on new vehicles, with the value of motor vehicle sales up almost 16% in the first three months of the year. Spending on building supplies was also up more than 13% as home owners took advantage of the now-expired federal Home Renovation Tax Credit and a low interest rate environment. Housing markets across most of the region were also strong in the first quarter.

Atlantic Provinces Expect Little Headway In Reducing Deficits During the Next Three Years

Fiscal balance ($millions)



Source: Provincial budget documents/APEC

In contrast to robust domestic activity, the region's exporters are still under pressure. While New Brunswick's energy exports increased due to higher oil prices, energy exports declined in the two offshore producing provinces due to continuing declines in offshore oil and gas production and a temporary reduction in output at the refinery in Newfoundland and Labrador.

Non-energy exports are down in three of the Atlantic provinces with New Brunswick up solely due to a massive jump in potash exports following shutdowns last year. A majority of sectors are down with lower iron ore and paper exports the two biggest contributors to the decline in the first quarter. Atlantic Canada's total non-energy exports are currently 39% below their pre-recession peak recorded in the early summer of 2008.

The Bank of Canada is poised to begin raising interest rates with economic activity and inflation in Canada stronger than previously anticipated. However, there have been renewed concerns about the strength of the global recovery as European countries attempt to reign in their government deficits and China seeks to moderate its rapid recovery. Economic growth was already expected to moderate in North America in the second half of this year as the effects of fiscal and monetary stimulus starts to wane. Financial market concerns over the fiscal crisis in Europe have triggered a renewed flight to the perceived safety of the U.S. dollar; the Canadian dollar has fallen back from parity and commodity prices have given up some of their recent gains.

Provincial Budgets

So far, the Atlantic provinces seem to be avoiding any tough action to get back to fiscal balance. Despite assumptions that economic growth and hence tax revenues will gradually recover, the provinces forecast little change in their deficits over the next three years. Nova Scotia and Prince Edward Island are projecting a return to balance by 2013/2014 and New Brunswick by 2014/2015.

Tax policy appears to be diverging with New Brunswick continuing with its personal income tax cuts and Newfoundland and Labrador matching these reductions. Nova Scotia has increased its tax rate on high income earners and is hiking its portion of the HST by 2 percentage points from July 1. However, with little prospect in the three Maritime provinces of either a surge in revenues or an increase in federal transfers, provincial governments will have to make some difficult and potentially unpopular decisions regarding program spending. Demands for improved health care and the pressure of an aging population will not go away. Despite a decline in overall enrolments, governments

remain committed to improving educational outcomes of young people and pursuing other initiatives to promote economic growth. Making those tough decisions sooner than later would instil a greater sense of confidence regarding the region's fiscal management among its business community and among those who rate and fund its debt. Recent developments in Europe, highlighted by the fiscal situation in Greece, underscore the danger of letting fiscal deficits and debt levels get out of hand. ■

ATLANTIC ECONOMIC SNAPSHOT

Labour Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Employment	Jan-Apr 10	219.1	72.1	451.2	366.1	1,108.4	16,976.2
thousands	Jan-Apr 09	214.9	68.6	452.9	365.7	1,102.1	16,865.5
	%change	2.0	5.1	-0.4	0.1	0.6	0.7
Unemployment Rate	Jan-Apr 10	15.0	10.1	9.1	8.9	10.3	8.2
percent	Jan-Apr 09	14.9	12.2	9.0	9.1	10.4	7.9
Unemployment Rate	Apr 10	14.7	10.2	9.3	9.1	10.4	8.2
percent (current month)	Apr 09	15.5	12.4	9.0	9.1	10.6	8.0
Participation Rate	Jan-Apr 10	59.8	68.8	64.0	64.5	63.5	67.1
percent	Jan-Apr 09	59.0	67.7	64.5	64.8	63.6	67.4

Consumer Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Consumer Price Index (CPI)	Jan-Apr 10	116.7	119.0	117.4	115.7	n/a	115.6
2002=100, unadjusted (period avg.)	Jan-Apr 09	113.5	115.5	114.3	112.0	n/a	113.7
	%change	2.9	3.1	2.7	3.3	n/a	1.7
Residential Permits	Jan-Mar 10	253.6	29.2	243.5	151.2	677.5	11,874.7
$ millions	Jan-Mar 09	153.0	19.1	156.1	110.9	439.1	6,311.7
	%change	65.8	52.6	56.0	36.4	54.3	88.1
Urban Housing Starts	Jan-Mar 10	262	29	614	300	1,205	32,450
Units; unadjusted	Jan-Mar 09	224	23	365	259	871	21,574
	%change	17.0	26.1	68.2	15.8	38.8	50.4
Rural Housing Starts	Jan-Mar 10	174	14	77	123	388	2,564
Units; unadjusted	Jan-Mar 09	50	21	81	62	214	2,198
	%change	248.0	-33.3	-4.9	98.4	81.3	16.7
Retail Trade	Jan-Mar 10	1,891	448	3,197	2,657	8,192	109,156
$ millions	Jan-Mar 09	1,725	410	2,919	2,440	7,494	101,404
	%change	9.6	9.1	9.5	8.9	9.3	7.6

Industrial Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Total Non-Energy Exports	Jan-Mar 10	408	161	842	863	2,273	71,131
$ millions, unadjusted	Jan-Mar 09	514	207	890	824	2,436	72,291
	%change	-20.6	-22.4	-5.4	4.6	-6.7	-1.6
Total Energy Exports	Jan-Mar 10	1,289	0.9	100	2,388	3,778	24,373
$ millions, unadjusted	Jan-Mar 09	1,314	0.6	233	1,454	3,002	19,924
	%change	-1.9	56.7	-57.1	64.2	25.8	22.3
Manufacturing Shipments	Jan-Mar 10	888	301	2,294	4,196	7,678	132,542
$ millions	Jan-Mar 09	1,127	342	2,253	3,327	7,049	122,405
	%change	-21.2	-11.8	1.8	26.1	8.9	8.3
Non-Residential Permits	Jan-Mar 10	42.1	17.9	71.1	131.7	262.9	6,125.9
$ millions	Jan-Mar 09	44.6	19.9	99.0	56.6	220.2	5,777.4
	%change	-5.5	-9.8	-28.2	132.5	19.4	6.0

Note: Seasonally adjusted unless otherwise noted (unadjusted)

Source: Statistics Canada

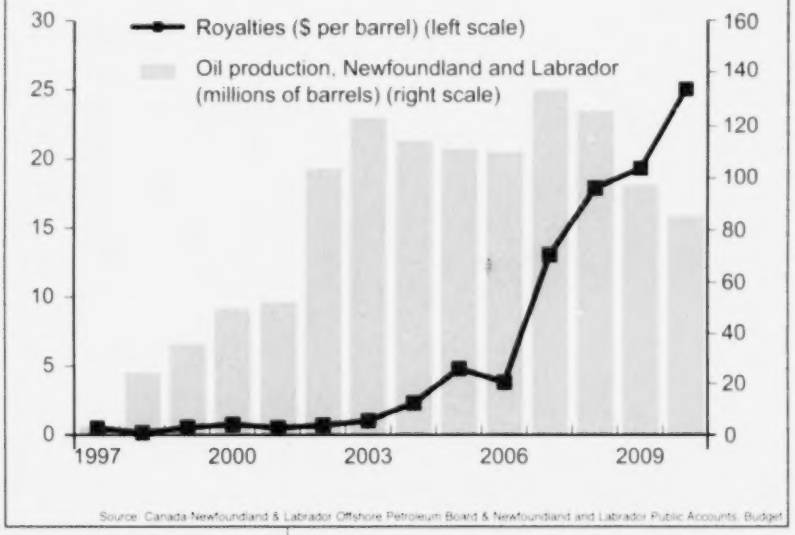
Provincial Report
Newfoundland & Labrador

Current Conditions

Newfoundland and Labrador is benefiting from higher commodity prices in early 2010, while employment gains are supporting continued strength in retail sales and housing.

Oil prices averaging US$80 per barrel in the first four months of 2010, up 80% over least year. As a result, crude oil exports increased 24% despite a decline in offshore oil production during the first four months of the year. Expansions at Hibernia and White Rose will only slow the pace of declining output from existing fields. However, royalties are forecast to increase 15% to $2.16 billion in 2010/2011, assuming oil prices average US$80.85 per barrel. Royalties per barrel are on the rise as the existing Hibernia royalty rate hit 30% sooner than expected.

Oil Output Declining But Royalty Rate Increasing



Source: Canada Newfoundland & Labrador Offshore Petroleum Board & Newfoundland and Labrador Public Accounts, Budget

Employment in Newfoundland and Labrador increased 2% in the first four months of 2010 versus a 0.7% gain nationally.

Employment in Newfoundland and Labrador increased 2% in the first four months of 2010 versus a 0.7% gain nationally. While a majority of sectors experienced improvement, led by health care and accommodation and food services, there were losses in manufacturing and business services. Average weekly wages in the province have also risen, up almost 6% in the first two months of 2010, well above the rate of inflation. However, Corner Brook Pulp and Paper employees accepted a temporary 10% wage cut to help keep the mill operating.

Rising incomes and consumer confidence, and the likelihood of higher interest rates later this year, pushed the value of new motor vehicle sales up 24% in the first three months of 2010. A strong housing market boosted sales of furniture and building supplies. Total retail sales rose almost 10% in the first quarter.

Newfoundland and Labrador's housing market has shown amazing resilience in 2010, as housing starts increased 59% in the first quarter of 2010. While housing starts in St. John's were up almost 15%, the number of starts in the rest of the province were three times higher than the first quarter of 2009. The average price for existing homes also increased, up 21% in the first quarter of 2010, according to the Canadian Real Estate Association, but existing housing sales fell sharply.

Despite higher oil prices, refined petroleum exports were down 50% in the first quarter. Harvest Energy Trust shut down its Come by Chance refinery until mid-March to undergo maintenance after a fire at its isomax unit in early January. Non-energy exports are down 21% year to date, due to lower iron ore exports and a large drop in newprint related to the closure of the Abitibi-Bowater mill in Grand Falls-Windsor. However, seafood exports were up 37% due to increased exports of shrimp and crab.

Mining

Newfoundland and Labrador's Department of Natural Resources forecasts the value of mineral shipments will increase 62% in 2010, thanks to higher mineral prices and the re-opening of mines. Iron ore prices, currently at US$175 dollars per metric tonne, are up 110% due to rising Chinese demand. Labrador Iron Mines Holding Ltd. hopes to begin operations at its Schefferville mine in Labrador by mid-year while the Iron Ore Company of Canada recently announced it will begin the first phase of its Labrador mine expansion, which had been delayed due to the recession. Wabush Mines completed a wage settlement in February but the strike at the Vale Inco mine is yet to be resolved.

Fishing

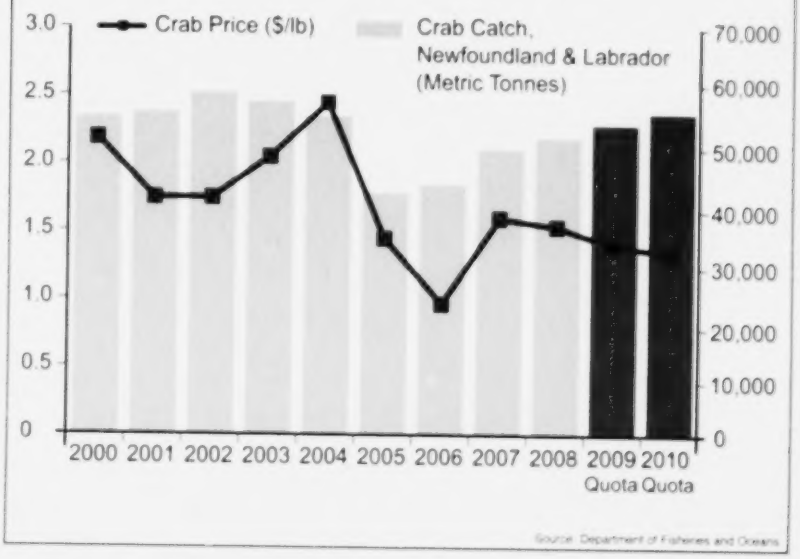
The value of the seafood industry declined 22% to $827 million in 2009 due to lower prices for lobster, shrimp and crab, as well as a shut-down in the shrimp fishery over pricing issues. Seafood industry employment declined by 14% to just over ten thousand. Crab prices for fishermen have been set at $1.35 per pound for 2010, but the season started a month late because of protracted negotiations. Shrimp and lobster prices are 48 cents per pound and $3.25 per pound, respectively, which are 25% and 37% below pre-recession levels, respectively. However, the Gulf of Mexico oil spill could boost shrimp prices.

Budget

Newfoundland and Labrador is forecasting a budget deficit of $194 million in 2010/11 with a similar-sized deficit forecast for 2012/2013. Newfoundland and Labrador's wage settlements with provincial employees averaged 5% in 2009, with no indication of wage restraint in the recent budget. The university tuition freeze will continue for another year.

Newfoundland and Labrador will reduce its second and third tax bracket rates on individual income to match those in place in New Brunswick. Newfoundland and Labrador reduced its small business tax rate from 5% to 4%, effective April 1 and it increased its age credit to improve incomes for seniors. It also increased the dividend tax credit. Newfoundland and Labrador increased its tobacco tax rates marginally.■

Late Start and Lower Prices for Crab Fishery



Source: Department of Fisheries and Oceans

Provincial Report
Prince Edward Island

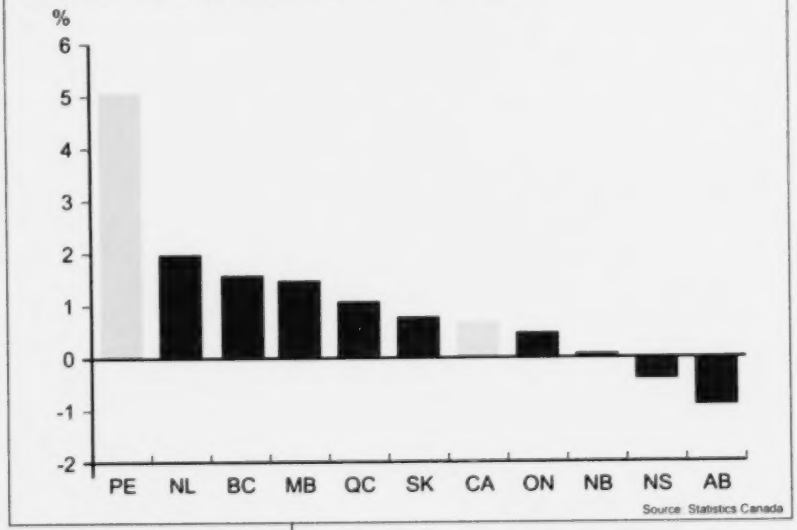
Current Conditions

An improving employment picture and solid gains in retail sales points to a consumer led recovery in Prince Edward Island. However, manufacturers and exporters continue to struggle, with exports showing the steepest decline in Canada in the first quarter of 2010.

Average employment in the first four months of 2010 is now 5.1% higher than the same period last year.

According to Statistics Canada's Labour Force Survey employment on the Island has been recovering since last August. Average employment in the first four months of 2010 is now 5.1% higher than the same period last year. Almost all of the job gains are in the service sector, led by retail trade, education and health care. Manufacturing employment is about 10% lower than in early 2009 but has been stable so far this year. These job gains brought the unemployment rate to 9.5%, its lowest monthly level since May 2008.

Prince Edward Island is Leading the Rest of the Country In Job Growth...
Change in emloyment, Jan - Apr 2010 over Jan - Apr 2009 (%)



Supported by rising employment and higher wages, retail sales in Prince Edward Island are up 9.1% in the first quarter of 2010. Sales growth was led by new motor vehicles and sales of building materials but there were strong gains at all store types except food and beverage stores.

Manufacturing sales were down 12% in the first quarter of 2010 compared with 2009, led by lower shipments of food and transportation equipment. Exporters also remain under pressure with exports down 22% due to sizeable drops in exports of aerospace and fresh and frozen potatoes (down a combined 26%). McCain Foods plans to cut 35 jobs at its plant in Albany in September due to weak demand for potatoes. The cuts represent a 23% decline in its labour force on the Island.

Aerospace

Prince Edward Island's aerospace industry posted revenues of $355 million in 2009, up 14.5% over 2008. The Island's aerospace industry services a diverse array of smaller customer bases instead of only relying on orders from major industry players like Boeing. This diverse revenue base helped the aerospace industry to weather the recession better than many industries in the province. Currently the industry employs approximately 900 workers and is the second highest exporter. While international aerospace exports are down more than 20% in the first three months of 2010, this likely reflects a drop in orders in the second half of 2009.

The provincial government has targeted aerospace as a key growth sector for the province and has used a variety of tax incentives to attract and retain aerospace and aviation companies. Currently businesses can apply for a full annual rebate of all provincial income, sales and property taxes. Average wages are also the lowest in Canada, about 16% below the sector's Canadian average.

The 20-year tax incentive program is due to expire in 2012. A review process is on-going by various government departments about

extending or modifying the tax rebates with a decision expected to be made in 2011.

Rural Action Plan

In February the provincial government released its rural action plan. Remote rural areas have been in a steady state of decline in the province, suffering from out-migration, high unemployment and low wages. As 45% of the jobs in rural areas are in goods manufacturing (compared to only 18% in urban areas), rural communities have been hard hit by a decline in resource-based employment. Since 1993 rural areas have seen their population decline by an average of 3% per year, with some areas falling as much as 7.5% a year, as young workers migrate to urban centres. The rural population is aging, which is increasing the demand for medical services.

The action plan is designed to improve economic growth in rural regions through a combination of initiatives including creating a higher profile tourist status, better education for its labour force, human resource development, and improvements in innovation and competitiveness of its primary sectors.

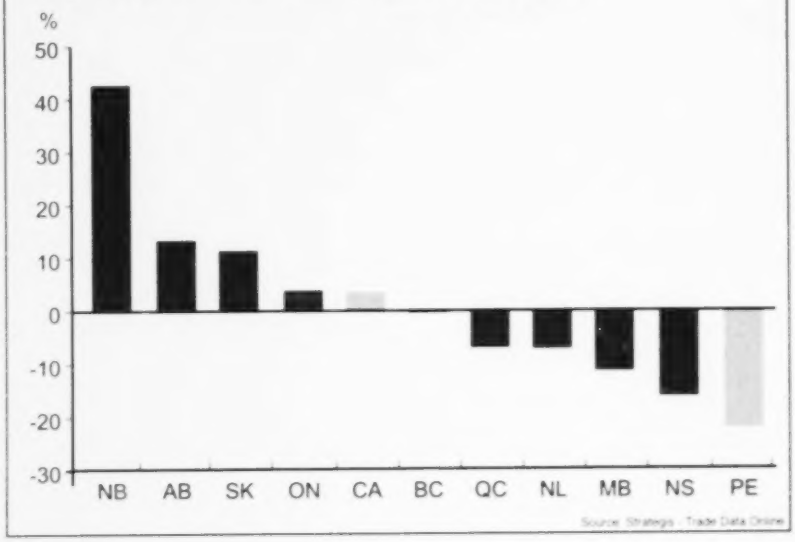
As part of the action plan the government plans to invest $100 million in rural communities over the next five years, which includes $25 million for a low interest loan program, $25 million for innovation and competitiveness programs, and $10 million on environmental conservation initiatives.

Provincial Budget

Finance minister Wes Sheridan presented a new budget in April which projected a deficit of $55 million for 2010/2011. The province's total debt is forecast to grow almost $130 million or 8% to $1.74 million by the end of 2010-2011. This suggests the 8.4% increase in debt charges is driven by increases in net debt, with no allowance for interest rate increases throughout the year.

...But Its Exports Are Lagging

Change in exports, Jan - March 2010 over Jan - March 2009 (%)



Source: Strategis - Trade Data Online

The province anticipates returning to a balanced budget by 2013/2014. However, no tax changes or expenditure cuts were announced to assist the province in reducing its deficit more quickly.

Health care spending tops the $500 million mark for the first time in provincial history, accounting for 34% of total expenditures in 2010/2011. The number of teachers will increase by 12% over the next five years as part of an education strategy to achieve smaller class sizes and improve student-to-teacher ratios. Education received the largest expenditure increase relative to last year in the new budget.■

Provincial Report
Nova Scotia

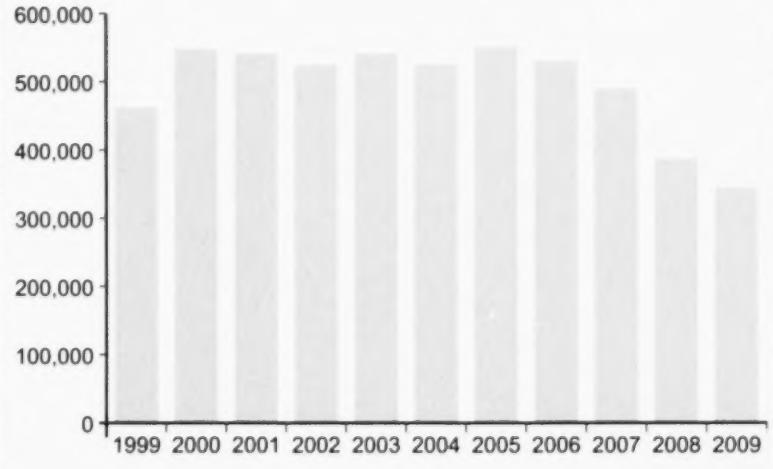
Current Conditions

Nova Scotia is showing some signs of recovery from the global recession led by strong improvements in housing and retail spending. However, employment remains below pre-recession levels while exports continue to struggle.

Retail trade has been recovering steadily since hitting a low in December 2008 in the midst of the recession. Sales were 9.5% higher in the first quarter of 2010

Following last year's 10% drop, housing starts in Nova Scotia in the first three months of 2010 were up a sizeable 55% over the same period in 2009 – their highest first quarter level in the past 10 years. Gains were concentrated in urban areas and reflect strong growth in single family homes. Existing home sales also jumped 23% in the first quarter. Despite weak employment growth, average wages are growing at 3.2%, slightly ahead of the inflation rate and hence providing modest real income gains for those with jobs. At the same time, the interest rate on a conventional five-year fixed rate mortgage hit its lowest point in a decade, reaching 5.39% in February. Expectations that interest rates will rise during 2010 may have further buoyed housing activity.

Port of Halifax Poised for Rebound in 2010
Container Shipments, Port of Halifax (Twenty foot equivalent units)



Source: Halifax Port Authority

Retail trade has been recovering steadily since hitting a low in December 2008 in the midst of the recession. Sales were 9.5% higher in the first quarter of 2010 than the same period last year. While higher prices at the pumps have pushed up gasoline sales, a jump in purchases of new cars boosted motor vehicle sales by 16% in the first three months of the year. Non-automotive sales are also up a respectable 4.2%.

Although there have been month-to-month fluctuations, overall employment in Nova Scotia has been flat since the beginning of 2009. Average employment in Nova Scotia in the first four months of 2010 is down marginally (0.4%) from the same period last year. Strong job growth in health care and social assistance (up 8,100) has been supplemented with gains in finance, real estate and construction, consistent with a strong housing market. Job losses have been largest in manufacturing but weakness is broad-based with 11 of 16 industries showing lower employment so far this year.

Manufacturing shipments are up 1.8% so far in 2010. Higher prices have boosted the value of shipments of lumber but food products, machinery and transportation equipment are much lower. International exports show even greater weakness, with non-energy exports down 5% in the first quarter of 2010, led by declines in exports of fish and newsprint.

Energy exports have decreased 57% in the first quarter due to lower prices and a 17% drop in production. Natural gas output was down 13% in the first four months. Although a compression deck installed in 2007 provided a temporary boost to production levels, overall output has been trending down since 2001.

The Port of Halifax

The port of Halifax has shown a marked improvement in container shipments in the first quarter of 2010, up 41% over the same period in 2009. The strong improvement over last year is a clear signal that global trade is rebound-

ing. However, the Port still has much ground to make up: total container movements in 2009 were 37% lower than their peak in 2005.

The addition of new shipping lines and services should further support container throughput this year. For example, Maersk Line recently introduced a new weekly service to northern Europe. New technology developed by Aqualife and Maersk will also allow for greater shipments of live shellfish by sea rather than by air. As sea transport has lower carbon emissions than air, it will support environmental labeling of fish products.

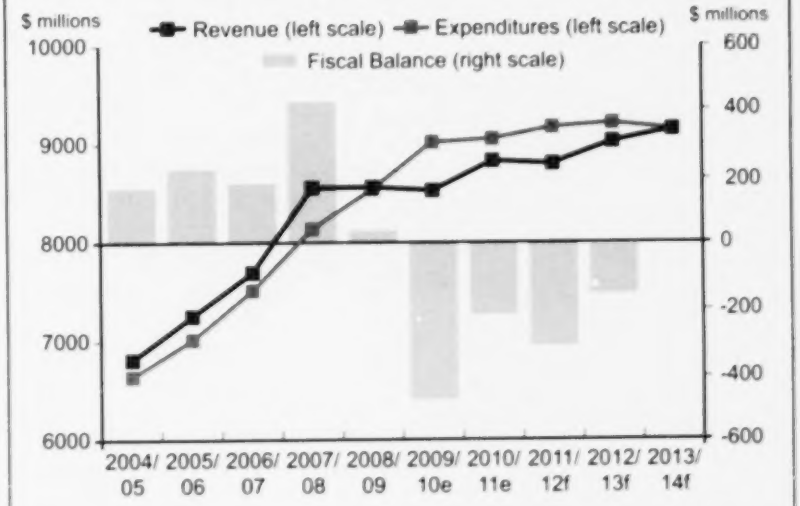
Meanwhile, the port continues to take steps to improve its competitive position. A $35 million construction and dredging project expected to be completed in the second quarter of 2011 at the South-End Container Terminal will allow two post-Panamax ships to call the port at the same time. A new supply-chain partnership agreement between CN, the two terminal operators and the Halifax Port Authority outlines precise performance standards for each partner to help improve delivery times to key markets in central Canada and the U.S. Midwest.

Renewable Energy Strategy

The provincial government will legislate that 25% of the province's electricity must come from renewable sources by 2015, and has set a goal of 40% renewable energy by 2020. Biomass is expected to play an important role in reaching the 2015 target but wind is expected to be the main means to meet the 2020 goal. Natural gas will play an increased role to help balance intermittent energy sources such as wind but the strategy would reduce use of other fossil fuels from 75% currently to 40% by 2020.

According to the government, the new renewable energy targets could require $1.5 billion of new investment by 2015 and generate 5,000-7,500 person years of employment. Household electricity bills are expected to increase by $10 - $40 per year to meet the 2015 goal.

Deficit Control in Nova Scotia Depends Upon Successful Spending Restraint



Source: Finance Canada, Nova Scotia budget documents

Provincial Budget

The deficit projected for 2010/2011 is $222 million. Due to an under-funded pension liability of $536 million and capital expenditures of $710 million, the provincial debt will top $14 billion this year, which translates into approximately $18,000 of government debt per capita.

The provincial government plans to eliminate the deficit by 2013/2014. Notable tax changes include an increase in the provincial portion of the HST by two percentage points to a combined rate of 15%, and a new personal income tax rate for those earning $150,000 or more.

Expenditure restraint measures include reducing provincial staff by 1,000 jobs through attrition over the next three to four years, limiting annual public wage increases to 1%, limiting the cost of living increases to 1.25% in the public pension plan for the next five years and departmental expenditure targets. ■

Provincial Report
New Brunswick

Current Conditions

The New Brunswick economy is benefiting from recovering commodity prices, which is boosting export revenues and manufacturing shipments. Retail sales are up strongly despite flat employment growth.

Energy exports are up 64% in the first quarter of 2010, as higher oil prices lifted refined petroleum exports by 52%. Non-energy exports are up 5% in the first quarter, helped by increased potash production and higher prices for lumber and zinc. Potash exports are up in early 2010 due to a return to normal production levels at Potash Corporation's Sussex mine. Globally, the Corporation's production was at 30% of operating capability in 2009. A large drop in french fry exports will likely be sustained throughout 2010. McCain's has reduced its potato purchases by 20-30% due to a decline in demand. According to one estimate, this could lower farmers' potato crop receipts by $15 million. The State of Maine is considering buying a portion of a key rail link owned by Montreal, Maine and Atlantic Rail Ltd. The rail line, which is scheduled for abandonment, runs north-south between Madawaska and Millinocket and has been used by companies such as McCain's, J.D. Irving and Fraser Papers.

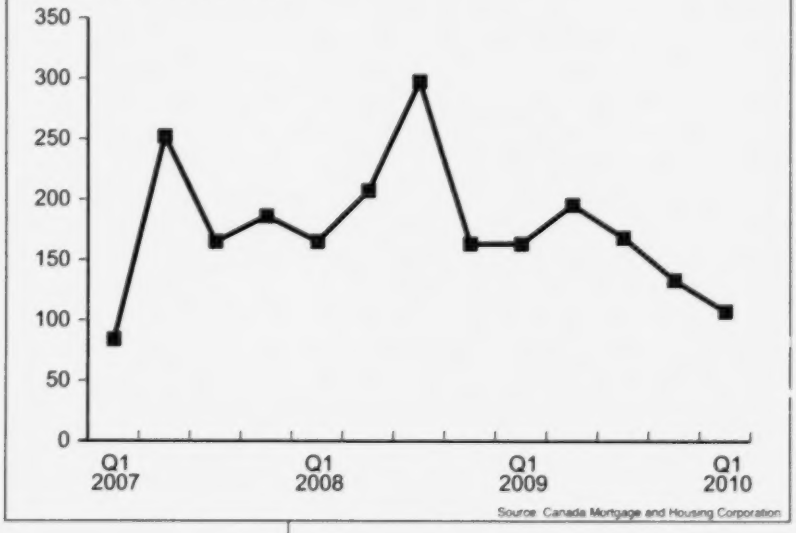
Retail sales, excluding gasoline, are up over 7% in the first quarter, largely due to double digit growth in new motor vehicles.

Manufacturing shipments are up 26% over the same period, reflecting higher oil and lumber prices, as well as gains in food manufacturing. Food manufacturing is up 8%, due in part to a large increase in seafood products. However, a decline in crab stocks has resulted in a 63% reduction in the total allowable catch quota for the Gulf of St. Lawrence region. This could reduce seafood product manufacturing as the year progresses.

Employment in New Brunswick was largely unchanged in the first four months of 2010, up 0.1% over the same period in 2009. Gains in retail trade, information services, manufacturing and construction, were offset by losses in professional services and the public sector. The opening of Casino New Brunswick in Moncton should boost accommodation and food services, as it will employ upwards of 425 people and is forecast to have as many as 600,000 visitors per year.

Average weekly wages in the first two months of 2010 are up only 2%, which is well below the inflation rate. That means labour income in real terms has declined, but lower personal taxes should raise disposable income. Nevertheless, retail sales, excluding gasoline, are up over 7% in the first quarter, largely due to double digit growth in new motor vehicles. Spending on other big ticket items, such as furniture and building materials, has also increased rapidly because of higher housing activity.

Saint John Housing Starts Softens as Big Projects Fade
Housing starts, Saint John (units)



Source: Canada Mortgage and Housing Corporation

Saint John Housing Market

While New Brunswick housing starts soared 32% in the first quarter of 2010 because

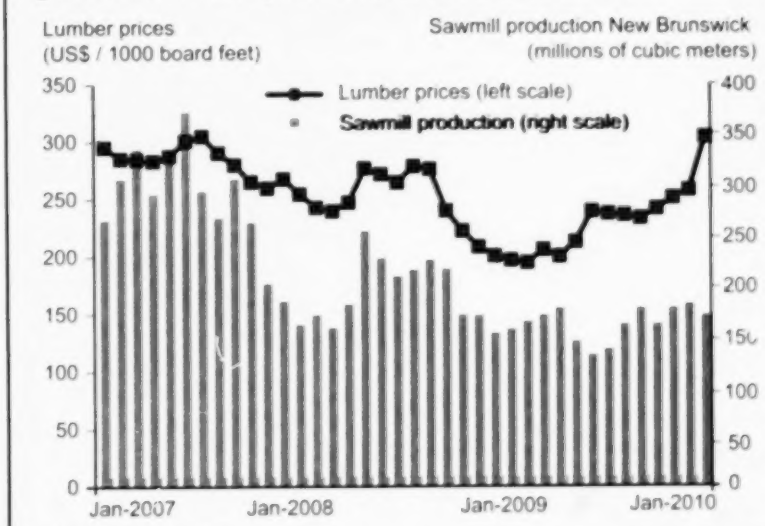
of low mortgage rates, housing starts in Saint John were off 34%. Employment in Saint John was down almost 1% in the first four months of the year following the completion of some major energy projects, while the cancellation of the proposed second refinery has dampened growth expectations. However, the number of housing resales in Saint John was up in the first quarter of 2010 compared to last year because buyers purchased homes ahead of anticipated interest rate increases.

Energy

Southwestern Energy will spend as much as $47 million on shale gas exploration over the next three years after it won two of three call for bids. Apache Canada Ltd. has entered into a farm-in agreement with Corridor Resources with the potential for shale oil and gas exploration and development expenditures of $125 million over the next three years. During Phase 1 of the farm-in agreement, Apache will conduct an 18-month appraisal of the commercial viability of natural gas development in Frederick Brook and light oil development at Caledonia at a cost of $25 million, to be completed on or before June 1, 2011.

NB Power is looking to shave $20 million in operating costs in an effort to reduce the size of future rate increases. It has requested a 3% rate increase effective June 1, 2010. Another 3% rate increase will be required next year to recoup the deferred costs during the refurbishment of the Point Lepreau nuclear generating station, which include both replacement power and cost overruns. The New Brunswick government continues to lobby the federal government to recover cost overruns related to the Point Lepreau refurbishment, with the current estimate of cost overruns at $475 million. This is in addition to the original estimated cost of $1.4 billion that Atomic Energy of Canada Ltd. is responsible for. The rate increases will put further pressure on New Brunswick's manufacturers who were hoping for significant rate reductions under the now failed NB Power - Hydro Quebec deal. The Umoe Solar solar cell plant project was recently put on hold indefinitely, with higher energy prices cited as one of the reasons for shelving the project.

Higher Prices Point to Reprieve for New Brunswick Sawmills



Source: TD Economics & Statistics Canada

Forest Industry

New Brunswick's forest industry, which has been a vocal advocate for lower power rates, has suffered significant declines over the last five years. The collapse of the United States housing market led to reduced lumber prices and widespread sawmill closures. However, lumber prices have rebounded 51% so far this year as demand increased for lumber supplies. Sawmill output in New Brunswick is up 12%, with 30 mills now at full production. However, half of New Brunswick's sawmills remain inactive. Lumber prices are expected to remain high, which should support further output gains. New Brunswick's lumber exports are up 46% in the first quarter but pulp and paper exports are down substantially. ■

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